Senate Budget and Fiscal Review—Wesley Chesbro, Chair
SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
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Agenda
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Upon Adjournment of Senate Floor Session – Room 113

I. Proposition 49 (Local Assistance) – *After School Education and Safety Program Act of 2002*

A. Background. In 2002, the voters approved Proposition 49 which has the effect of requiring the state to quadruple the amount of funding it expends on state After School Programs. After several years of failing to meet the state General Fund revenue "trigger" contained in the initiative, there is no disagreement that, without further action by the voters, the provisions of Proposition 49 will go into effect in the 2006-07 fiscal year.

To meet this end, General Fund support for After School programs will increase by $426 million, bringing total state support to approximately $548 million. Under the provisions of Proposition 49, state funding for After School programs is now continuously appropriated and no longer requires approval by the Legislature as part of the annual Budget Act.

Barring any further action by the voters to repeal, delay, or otherwise amend the provisions of Proposition 49, $548 million will be available for After School Programs beginning July 1, 2006.

In order to ensure that the additional After School funds are not shifted from elsewhere in the K-14 budget, the provisions of Proposition 49 require that the appropriation of $426 million be over and above the minimum funding level guaranteed to K-14 education under Proposition 98. The result is to build the Proposition 98 "base" by $426 million in future years. The Administration intends to count this "over-appropriation" as buying down the amount of Proposition 98 maintenance factor funds it "owes" schools and community colleges.

B. Current Program Implementation Issues. The state has long-sought to provide After School learning and enrichment activities for children throughout K-12 education. Unfortunately, the implementation of the existing statutory program has not been without its faults. Under current statute, After School programs must "earn" their grant, meaning that programs assume a certain level of student enrollment, and then when they fail to exactly meet that target (generally erring on the side of caution and "under-enrolling" rather than "over-enrolling") the unused funds revert to the General Fund. Since 2000-01, state After School programs have reverted over $119 million, averaging close to $30 million annually in unused funds.

In addition to the previously-noted issues with "earning" their grant, programs have expressed concern that: (1) the reimbursement rates (currently at $5 per day per child) are too low to run a quality program; (2) statutory "caps" on the maximum grant a school can receive have limited schools with un-served populations from expanding their programs; and (3) local matching funds requirements do not allow for donated facilities to be counted towards that match requirement.

C. Policy Issues for Consideration.

- Does the Legislature wish to place an initiative before the voters to alter, repeal, or delay Proposition 49 until the state's fiscal situation improves?

- What type of an After School program does the Legislature want to implement: (1) A universal "safety" program, whereby every school receives a small amount of money to simply care for children during the after school hours; or (2) an "academic" program, whereby fewer schools receive larger amounts of money to provide direct assistance related to improving pupil performance on various state tests?

- What is the scope of the Legislature's legal authority to change the After School Education and Safety program statutes?

D. Governor's Proposal. In order to remedy the above-noted implementation issues, ensure that After School funds are utilized as effectively and efficiently as possible, and align the program with the policy priorities of the Administration, the Governor is proposing a variety of statutory changes to the program. Staff notes that, while the provisions of Proposition 49 allow the *"After School Education and Safety Program Act of 2002 [to] be amended to further the purpose of the statute,"* it remains unclear whether or not the Administration's proposals meet the definition of *"furthering the purpose of the statute,"* and as such, whether the Legislature is legally authorized to approve (or alter) the Administration's proposed statutory changes.

Specifically, the Administration, via legislation (Senate Bill 1302, Ashburn), which will be addressed in the policy committee process, proposes to alter the mechanics of the program to:

- Alter the granting process from an "earned" grant to a "block" grant which would be adjusted in out-years to account for changes in pupil enrollment;
- Increase the daily rate (upon which the total grant level is based) from $5 per day to $7.50;
- Increase the grant "caps" for individual schools;
- Reduce the matching funds requirement from a 50 percent match to a 33.3 percent match;
- Allow facilities to be counted towards meeting the matching funds requirement;
- Give existing After School Program grantees first priority to continue their grants under the new program.

In addition to the above-noted changes, the Administration also proposes a myriad of substantive programmatic changes (again, via Senate Bill 1302, Ashburn). Specifically, the Administration proposes to:

- Require programs to place highest priority on improving reading skills and attaining English language proficiency;
- Require that grantees track Standardized Testing and Reporting (STAR) Program test results of participating students;
- Require the California Department of Education to evaluate programs and base future funding levels on how STAR scores change over time (decreasing or eliminating grant funding when programs fail to improve test scores);

- Shift programs funded under the federal 21st Century Community Learning Centers program *from* federal support *to* the state (Proposition 49) program, and then grant priority for funding to these programs;

- Focus the "freed-up" federal 21st Century funds on high school After School programs, but link the future of the high school's grant to the success of students passing the high school exit exam.

E. Recommended Action. Staff notes that all of these proposed statutory changes will be addressed in the policy committee process and that no action is needed by this committee.

II. CDE State Operations (Proposition 49)

Currently, the State provides $978,000 in General Fund to support the staff and operational costs of administering the existing After School Program. Under the Governor's proposal, this amount would increase to $2.205 million (solely from Proposition 49 funding) and would be used to support an additional nine positions.

Originally, the California Department of Education requested 12 new positions to administer the newly expanded After School Education and Safety Program; of that amount, the Administration chose to grant authority for nine new positions.

Under the provisions of Proposition 49, 1 ½ percent of the total Proposition 49 appropriation (which equates to approximately $8.2 million) is allowable for program evaluation and technical assistance. The state operations funding level proposed by the Governor falls well below this statutory cap.

Given that the provisions of Proposition 49 will require a four-fold increase in the amount of funding for After School programs, and will at least double the number of school sites participating in the program, staff believes that CDE is justifiably in need of the additional 3.0 positions which were denied by the Department of Finance.

As a result, **staff recommends** that the committee: (1) approve the 9.0 positions included in the Governor's proposal; (2) approve an additional 3.0 positions (one Educational Program Consultant and two Staff Services Analysts), with accompanying operational costs (totaling $304,000); and (3) make the Budget Bill Language changes necessary to effectuate this change.

Staff notes that the additional positions will be within the dollars provided under Proposition 49 and do not require an additional appropriation by the committee. Funds for local after school programs will be reduced by a like amount in order to shift funding to CDE for state operations.

III. Federal 21st Century Community Learning Centers

A. Background. The 21st Century Community Learning Centers program is a federally-funded After School program that provides disadvantaged K-12 students with academic enrichment opportunities and supportive services. The federal grant amount is appropriated to California for this program and has increased steadily since 2002-03 -- from $41.3 million to $135.9 million in the Budget Year.

Since the federal government converted the program to its existing format, the state has consistently underutilized the federal funds, rolling over large sums (approximately $20 million annually.) While CDE had a slow start in dispersing the grant program dollars, last year, the LAO and Department of Finance identified a series of statutory changes to the program that would make it easier for After School programs to fully utilize the funds and ultimately serve more students. Those changes were enacted in the current year (via legislation) and it is the hope of all parties that these changes will increase the actual use of federal funds and decrease the amount of funding carried over on an annual basis.

B. Governor's Proposal. The Governor's Budget proposes to expend $163.9 million in federal funds on the 21st Century Program ($135.9 million ongoing; $28 million one-time), which unlike Proposition 49 funds, *are* appropriated annually in the Budget Bill.

As part of the Administration's proposal to implement Proposition 49, legislation discussed above (Senate Bill 1302, Ashburn) also includes a variety of changes to the federal 21st Century program as well. As noted previously, these issues will be addressed via the policy committee process, however, in brief, the changes include:

- shifting existing federal program grantees to the state (P-49) program, thereby freeing up federal 21st Century dollars to cover after school needs for high schools, that would otherwise remain "unmet" under Proposition 49;
- implementation of "accountability" provisions mirroring those proposed for the state program (outlined above);

C. Policy Questions for Consideration. The Legislature will want to consider what, within the confines of the federal law, it wants the 21st Century Program to accomplish given the recent influx of money to the state's After School program.

D. Recommended Action. Staff recommends that the committee hold this item open pending the May Revision.

III. Child Care

A. Background. Under current law, the state makes subsidized child care services available to: (1) families on public assistance and participating in work or job readiness programs; (2) families transitioning off public assistance programs; and (3) other families with exceptional financial need.

Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services and the California Department of Education, depending upon the “stage” of public assistance or transition the family is in. Stage 1 child care services are administered by the Department of Social Services for families currently receiving public assistance, while Stages 2 and 3 are administered by the Department of Education.

Families receiving Stage 2 child care services are either receiving a cash public assistance payment (and are deemed "stabilized") or are in a two-year transitional period after leaving cash assistance; child care for this population is an entitlement under current law. The State allows counties flexibility in determining whether a CalWORKS family has been "stabilized" for purposes of assigning the family to either Stage 1 or Stage 2 child care. Depending on the county, some families may be transitioned to Stage 2 within the first six months of their time on aid, while in other counties a family may stay in Stage 1 until they leave aid entirely.

Families receiving Stage 3 child care services have either exhausted their two-year Stage 2 entitlement or are deemed to have exceptional financial need (the "working poor"). Child care services for Stage 3 are divided into two categories: (1) General Child Care – which is available on a limited basis for families with exceptional financial need; and (2) the Stage 3 Set-Aside – which makes child care slots available <u>specifically</u> for former CalWORKs recipients. The availability of Stage 3 care is discretionary and contingent upon the amount of funding appropriated for the program in the annual Budget Act. Under current practice, services to these two populations are supplied by the same group of child care providers; however, waiting lists, while consolidated, still grant priority to the former CalWORKs recipients.

Child Care is provided through either licensed child care centers or the Alternative Payment Program.

- *Child Care Centers* receive funding from the state which pays for a fixed number of child care "slots." Centers provide an educational program component that is developmentally, culturally, and linguistically appropriate for the children served. Centers also provide nutrition education, parent education, staff development, and referrals for health and social services programs. In many areas of the State, there are no available "slots" in licensed Child Care Centers or Family Day Care Centers and families are limited to the use licensed-exempt care.

- *Alternative Payment Program* provides child care through means-tested vouchers, which provide funding for a specific child to obtain care in a licensed child care center, licensed family day care, or license-exempt care. With a voucher, the family has the choice of which type of care to utilize.

Staff notes that, in the recent years, the Legislature has approved a variety of Administration-driven proposals designed to "ration" the limited amount of state subsidized child care services, including: (1) eliminating subsidized child care services for 13-year old children; (2) eliminating subsidized child care services for families whose income exceeded 75 percent of the State Median Income (maximum income level under law) and who were originally "grandfathered" into law; (3) reducing the maximum rate paid to Alternative Payment providers for administration and support services -- from 20 to 19 percent; (4) reducing the reimbursement rate for providers from 93 percent of the Regional Market Rate to 85 percent; (5) limiting the availability of child care services to 11- and 12-year olds by tacitly shifting this age group to After School Programs; and (6) establishing Centralized Eligibility Lists to consolidate the individual waiting lists formerly housed by providers into a central location.

B. Governor's Proposal. The Governor’s Budget provides $2.9 billion ($1.5 billion General Fund) to support approximately 450,400 children in the state’s subsidized child care and preschool systems. The proposed amount represents a decrease of approximately $56 million from current-level expenditures. Of the amount proposed, 48 percent of the funding will be spent on current and former CalWORKS recipients.

Also included in the Governor’s Budget is $14.8 million to a fund the 1.12 percent statutory growth rate and $70.2 million to provide a 5.18 percent Cost-of-Living-Adjustment (COLA).

Unlike recent years, the Administration is not proposing any policy or programmatic changes to the state's child care system. However, the Administration's proposal contains two elements worth noting:

1. Budget Bill Language. The Governor proposes Budget Bill Language which continues to freeze the income eligibility levels for families participating in the state's child care programs, and calls for a working group to develop a methodology to link any future income changes to the development of a new family fee schedule. The language further calls for the working group to consider the use of alternative indexes for future income eligibility adjustments; consider the standard reimbursement rate; and review child care contracts to maximize expenditures.

   Recommended Action. Staff recommends that the committee hold this item/issue open pending both the May Revision and further conversations with the Administration.

2. CalWORKS Caseload Assumptions. The Governor's proposal makes a variety of caseload assumptions in the CalWORKS program which directly impact the number of children expected to be eligible for Stages 1, 2, and 3 child care services. Specifically, the Administration assumes a gradual decline in the CalWORKS child care caseload due to the assumption that work participation rates for CalWORKS families will remain flat and that the number of families reaching their 60-month time limits will continue to increase.

The chart below illustrates how – as of January 10, 2006 – the Administration believes child care enrollments will shift.

Program	Governor's Budget Enrollment Assumptions	Proposed Change in Enrollment (from 2005-06 Budget Act)
Department of Education Child Care/Development Programs:		
State Preschool	103,500	2,400
General Child Care	90,900	2,500
Alternative Payment Program	34,000	-100
CalWORKS Stage II Child Care	79,400	-4,800
CalWORKS Stage III Child Care	53,700	-2,300
Other Child Care Programs	15,700	-300
CalSAFE Child Care	2,800	100
Community Colleges Child Care Program	3,000	0
Dept. of Social Services Child Care Programs:		
CalWORKS Stage I Child Care	59,900	-28,000
CalWORKS Reserve	7,500	-1,555
Total Enrollments	**450,400**	**-32,055**

However, <u>staff notes</u> that due to the Governor's January 10, 2006 budget release date, the Administration's proposal does not reflect the new work/participation requirements for CalWORKS recipients as passed by Congress on February 1, 2006 under the federal Deficit Reduction Act of 2005 (Act). Under the Act, beginning October 1, 2006, both the number of California CalWORKS families working, and the amount of time these families must spend working (or participating in work-related activities) will need to dramatically increase. Senate Budget Committee staff anticipates that California will need to double the number of CalWORKS families participating in 30 hours or more of work activities per week. As a result, the <u>child care needs for this population are expected to increase significantly beginning in the 2006-07 fiscal year, and will likely remain at a much higher level in coming year</u>.

<u>Recommended Action</u>. This item is presented *for information only*, as the issue of CalWORKS caseload is not within the jurisdiction of this committee. However, the Senate Budget Subcommittee No. 3 intends to discuss this issue at its hearing on May 4, 2006.

C. Issues Raised by the Office of the Legislative Analyst. In addition to the above-noted elements contained in the Governor's Budget, the Office of the Legislative Analyst (LAO) has raised several issues which were not addressed in the Governor's proposal. Specifically, the LAO offers recommendations on the following:

1. Increase reimbursement rate for Title 5 Child Care Centers and Implementation of a Sliding Scale COLA.

   Background. For child care and preschool, the state contracts directly with the provider, who must adhere to both state licensing requirements and the requirements of Title 5 of the California Code of Regulations. As a result, these providers are frequently referred to as "Title 5 Centers." Title 5 Centers require a higher education level of teachers, onsite reviews, and annual outcome reporting. Unlike other child care providers (either licensed or license-exempt), where the reimbursement rate varies based on the regional child care market, Title 5 Centers are reimbursed at the Standard Reimbursement Rate of $31.59 per full day of enrollment, regardless of the Center's location in the state.

   Issue. Under the current reimbursement rate structure, in some counties, licensed-exempt providers are paid at a higher reimbursement rate than Title 5 Centers. As such, the LAO argues that Title 5 centers provide a high quality and stable source of care, both of which should be reflected in their reimbursement rate.

   Recommendation. To meet this end, the LAO makes several recommendations: (1) redirecting funding provided in the Governor Budget for growth ($14.8 million) towards increasing the Standard Reimbursement Rate for Title 5 Centers; and (2) redistribute the funds contained in the Governor's Budget for Title 5 Centers and State Preschool Program COLAs (approximately $51.8 million of the total $70.2 million) to provide a higher COLA rate to Centers in high cost counties; a lower rate to Centers in lower-cost counties; and essentially effectuate a rate increase.

   Staff notes that while the rates of Title 5 Centers do appear to be artificially low, the child care caseload needs of the state may well exceed the growth funding provided in the Governor's Budget (4,500 new slots, which is then offset by a reduction in slots, for a net effect of 32,000 fewer slots), especially given the recent actions of the Federal government related to the CalWORKS program.

   Recommended Action. Staff recommends that this issue remain open pending the May Revision.

2. Limit the licensed-exempt reimbursement rate.

   As noted above, in some of the state's higher cost counties, license-exempt providers (who are only required to pass criminal background checks and self-certify to meeting basic health and safety standards) receive a higher reimbursement rate than Title 5 Centers.

In order to further remedy this inequity, the LAO recommends limiting the reimbursement rate for licensed-exempt providers to 90 percent of the Title 5 reimbursement rate.

Recommended Action. Staff recommends that this issue remain open pending the May Revision.

3. Proposed Sibling Discount.

According to the LAO, many, if not most, child care centers offer private-pay families a sibling discount if the family has more than one child in care. Under current practice, this "discount" is not extended to state-subsidized families, and as such, the state pays more for the second (third, or fourth) child than the private-pay families.

Recommended Action. Staff recommends that the Office of the Legislative Analyst work with the Departments of Education and Social Services to determine what degree of monetary savings could be achieved as a result of implementing this proposal and report back to the committee in early May.

4. Implementation of Regional Market Rate Survey.

Staff notes that discussion on this item will be deferred until the May 8, 2006 hearing, at which time the Department of Finance and the Department of Education are expected to have reached a conclusion regarding how to proceed on implementing the most recent Regional Market Rate (RMR) Survey.